ESG & Pension Investment

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Contents

- Investment & ESG
- Pension & ESG - International Experience
- Pension & ESG - Chinese Practice
ESG investment strategy – in 2012 Global Sustainable Investment Alliance (GSIA) defined the following sustainable investment, i.e., ESG investment, strategies:

<table>
<thead>
<tr>
<th>Strategies</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negative/exclusionary screening</td>
<td>The exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria;</td>
</tr>
<tr>
<td>Positive/best-in-class screening</td>
<td>Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers;</td>
</tr>
<tr>
<td>Norms-based screening</td>
<td>Screening of investments against minimum standards of business practice based on international norms.</td>
</tr>
<tr>
<td>Integration of ESG factors</td>
<td>The systematic and explicit inclusion by investment managers of environmental, social and governance factors into traditional financial analysis.</td>
</tr>
<tr>
<td>Sustainability themed investing</td>
<td>Investment in themes or assets specifically related to sustainability (for example clean energy, green technology or sustainable agriculture)</td>
</tr>
<tr>
<td>Impact/community investing</td>
<td>Targeted investments, typically made in private markets, aimed at solving social or environmental problems. Impact investing includes community investing, where capital is specifically directed to traditionally underserved individuals or communities, or financing that is provided to businesses with a clear social or environmental purpose.</td>
</tr>
<tr>
<td>Corporate engagement and shareholder action</td>
<td>This strategy employs shareholder power to influence corporate behavior including through direct corporate engagement, filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.</td>
</tr>
</tbody>
</table>

In terms of growth by regions, European ESG Investment assets increased by 11% to US$12.04 trillion in 2016 compared with 2014, while US increased rapidly by 32.7% to US$8.72 trillion in two years. In addition, Canada, Australia & New Zealand, Japan, and other countries have also achieved rapid expansion of ESG investment.
Benefits of ESG investment - literature review

Kempf and Osthoff (2007) have shown that a long-short strategy for selling stocks with lower ESG ratings and buying stocks with higher ESG ratings will produce a positive Carhart four-factor alpha with an annualized yield of 8.7%.

Morgan Stanley found that looking back at the performance of 10,228 open-ended public funds from 2008 to 2014, the return on sustainable investment funds is slightly higher than traditional funds; in emerging markets, ESG-based investments outperformed benchmarks with stronger correlation between ESG indicators and performance.

ESG integration will have a positive impact on the company’s finances. The University of Oxford found that 90% of over 200 research reports on sustainable investment showed that sustainability standards reduced the company's cost of capital, and 88% showed that solid ESG practices can improve business performance.

The annualized return on the MSCI-ESG leading index over the past decade is generally higher than its underlying index, with lower annualized standard deviation, resulting in a higher Sharpe ratio (0.44 vs 0.41).

In 2015, Deutsche Asset Management and the University of Hamburg studied more than 2,000 studies and concluded that ESG indicators are positively correlated with performance. Research in almost all asset classes, be it equity, bonds, or real estate research, showed that ESG indicators are positively correlated with performance, while only a small part (4.4%) of equity assets are negatively correlated with ESG.

Source: organized by CLAMC
Contents

- Investment & ESG
- Pension & ESG - International Experience
- Pension & ESG - Chinese Practice
Pension funds are the most important players in the capital market in many countries. According to recent data from Towers Perrin, the assets under management of global pension funds are currently over $40 trillion.

Due to the good fit of ESG investment strategy and pension investment target, the combination of the two is being adopted quickly in recent years.

Source: OECD, Willis Towers Watson

Consistency of ESG investment strategy and pension investment objectives

Most pension investment plans are based on long-term investment philosophy, and the investment itself faces significant long-term risks.

ESG Investments are concerned with long-term factors that have a significant impact on investment, such as climate change, unsustainable business models, inappropriate corporate governance, and political risks.
Europe: European pension market is at the forefront of ESG application in the world. It is reflected in the regulatory promotion of ESG investment. The IORPII Directive (adopted in December 2016 and effective in January 2019) provides for the application of ESG investment in pension plans in three aspects:

① requires EU members to allow corporate private pension plans to include ESG factors in investment decisions
② Private pension plans need to incorporate ESG factors into their governance and risk management decisions
③ Private pension plans need to disclose how to incorporate ESG factors into their investment strategies.

North America: The situation in Canada and the United States varies. Canada has a more positive attitude toward ESG investment. For example, the Financial Service Commission of Ontario stated in the regulatory guidelines that the ESG factor should be included in the investment strategy statement of the pension fund.

ESG investment is adopted less in US pension funds and mentioned less in regulatory bills. One example is the California state government requiring the state’s public sector pension plans CalPERS and CalSTRS not to invest more than half of the revenue in thermal coal industry.

Source: NEPC, organized by CLAMC
Asia: The application of ESG investment in the entire investment sector in Asia is significantly less than in Europe and the United States. The pension management market in Asia is smaller and has fewer participants than the European and American markets. Therefore, ESG investment in Asian pension management can now be described as rare. But the positive embrace of ESG investment by some of Asia's key pension managers is changing the situation.

- HSBC UK's pension fund is one of the UK's largest pension fund companies. Its asset management scale is about 30 billion pounds, and it manages pensions for about 80,000 trustees.
- In 2017, it began to transfer 1.85 billion pounds of its DC pension plan to the ESG fund the Future World Fund. The new fund will reduce carbon emissions by 70% compared to the global market index, reducing emissions by 28% and increasing green income by 105%.
- Actively pay attention to whether large enterprises are integrating atmospheric change reduction in their business strategy, and timely exercise shareholder rights to promote corporate social responsibility if the enterprises failed to do so.
- The company's adoption of ESG can bring three benefits: Firstly, adopting ESG is a better risk-adjusted long-term investment strategy. It is one of the investment innovations made by HSBC UK pension fund in the face of the low interest rate environment in the past decade; secondly, meeting the increasingly high regulatory requirements of UK regulators in this area; and thirdly, meeting the fund trustees' active interest in areas such as environmental change.

- The Government Pension Investment Fund is the world's largest pension fund with assets under management of US$1.3 trillion and joined the UN PRI in 2015.
- In July 2017, GPIF announced that it will increase the proportion of equity management assets related to social investment and investment strategies from 3% to 10%. If this program is fully implemented, it is expected that $29 billion will be included in the ESG investment.
- GPIF is the single largest institutional investor in ESG investment worldwide, and the ESG investment-driven index will drive Japanese companies to focus on and improve their ESG assessments and improve corporate value in the long run.
Contents

- Investment & ESG

- Pension & ESG - International Experience

- Pension & ESG - Chinese Practice
After 30 years of continuous reform, China has gradually formed a “three-pillar” pension insurance system: government paid mandatory basic pension insurance (the first pillar) covering mainly urban and rural residents, urban enterprise workers and public officials; supplementary pension insurance (second pillar) established by corporate funds as employee wellfare; and personal savings pension insurance (third pillar) established by commercial insurance companies.

**Pillar 1: Basic pension**

By the end of 2017, 915.48 million people participated in basic pension insurance in China, with accumulated balance of pensions of 5.02 trillion yuan, but the investment return was at a very low level, making it difficult to maintain and increase value.

<table>
<thead>
<tr>
<th>Cumulative balance of basic pension</th>
<th>Basic pension participation rate(2017)</th>
<th>Investment scope and investment ratio requirements</th>
<th>Basic pension investment return</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012 70,000 120,000 170,000 220,000 270,000 320,000 370,000 420,000 470,000 520,000 570,000 620,000 670,000 720,000 770,000 820,000 870,000 920,000 970,000 1,020,000</td>
<td>2012 80% 84% 87% 88% 89% 92% 95%</td>
<td>2012 0.5% 0.6% 0.6% 0.6% 0.6% 0.6% 0.6% 0.6% 0.6% 0.6% 0.6% 0.6% 0.6% 0.6% 0.6% 0.6% 0.6% 0.6% 0.6%</td>
<td>2012 2.66% 2.66% 2.66% 2.66% 2.66% 2.66% 2.66% 2.66% 2.66% 2.66% 2.66% 2.66% 2.66% 2.66% 2.66% 2.66% 2.66% 2.66% 2.66%</td>
</tr>
</tbody>
</table>

**Source:** Statistical Bulletin on the Development of Human Resources and Social Security, Wind, organized by CLAMC
Supplement to Pillar 1: National Social Security Fund
Since its establishment in August 2000, the assets managed by the Social Security Fund have maintained rapid growth. As of the end of 2017, the total assets of the fund reached 2,223.12 billion yuan, and the total equity of the fund was 2,071.69 billion yuan, of which the national social security fund equity was 1,754.22 billion yuan and the personal account fund equity was 127.41 billion yuan.

Changes in the national social security fund’s equity over the years

Investment scope and investment ratio requirements

<table>
<thead>
<tr>
<th>投资范围</th>
<th>投资比例</th>
<th>政策或资产集中度要求</th>
</tr>
</thead>
<tbody>
<tr>
<td>银行存款和国债投资</td>
<td>不得低于50%</td>
<td>单一银行存款不得高于存款总额的50%</td>
</tr>
</tbody>
</table>
| 企业债、金融债、地方政府债券投资 | 不得高于20% | 单个投资管理人管理的社保基金资产投资于1家企业所发行的证券或单只证券投资基金，不得超过该企业所发行证券或该基金份额的5%；按成本计算，不得超过其管理的社保基金资产总值的10%。委托单个社保基金投资管理人进行管理的资产，不得超过年度社保基金委托资产总值的20%。
| 证券投资基金、股票投资 | 不得高于40% | 受托管理的社保基金资产投资于1家企业所发行的证券或单只证券投资基金，不得超过该企业所发行证券或该基金份额的5%；按成本计算，不得超过其管理的社保基金资产总值的10%。
| 信托贷款     | 不得高于20% | 加大对保障性住房、城市基础设施以及棚户区改造等方面的投入。 |

Social security fund investment return
Since the establishment of the Social Security Fund, the average annual investment yield has been 8.37%, and the accumulated investment income has reached 1,007.399 billion yuan. Except for the impact of the financial crisis in 2008, which caused a decline in the stock market and a certain loss, the other years the fund achieved positive returns, and from 2011 to 2015, it basically maintained a rising trend. In 2016, due to the stock market crash, the rate of return has again declined to some extent. However, in general, the goal of maintaining and increasing the value of pension assets has been achieved.
Pension & ESG - Chinese Practice

- **Pillar 2: Corporate Annuity**
- By the end of 2017, the number of enterprises that established enterprise annuities reached 80,400, and the number of employees involved was 23.31 million. The accumulated balance of enterprise annuities was 1,288 billion yuan, basically increasing year by year. In terms of scale, the accumulated balance of enterprise annuity has exceeded one trillion, but the number of participating employees is only 5.79% of the national urban employees basic pension insurance. In terms of structure, enterprise annuity systems are mostly established by large SOEs, and is concentrated in economically developed provinces and regions. Overall, corporate annuity still has a small coverage, and its role as a second pillar remains limited.

Number of enterprises with annuity scheme established in China

The number of employees participating in the enterprise annuity and the cumulative annuity scale

Enterprise annuity investment return

The overall investment return of enterprise annuity plans has been quite volatile. Except for some near-10% high yields in individual quarters, investment return is basically maintained at 4% or below for most of the time. The overall rate of return is not high. Some quarters even saw negative return.

Source: Statistical Bulletin on the Development of Human Resources and Social Security(2017), organized by CLAMC
Pension & ESG - Chinese Practice

- **Pillar 3: Voluntary Personal Savings Pension Scheme**

  - The voluntary personal savings pension scheme is a form of supplementary insurance that is voluntarily participated by employees and with voluntarily chosen agencies. At present, it is still a small scale and slowly developing form. Its role as the third pillar of the pension system has not yet appeared. In terms of institutional design, it is still in a blank state and lacks clear policy incentives and norms.

  - In real life, self-support for the elderly is realized in the form of individuals participating in commercial pension insurance plans, purchasing wealth management products, and bank savings. At present, the total assets of traditional commercial pension insurance products such as annuity insurance and survival insurance are about 2 trillion yuan.

  - The development of the third pillar is expected to accelerate in the future. With personal pension accounts entering stock market, the scale of client assets continues to increase, and the asset managers need to manage larger and longer-term funds, posing higher requirements for investment.

### Innovative design of pension products
- People have different requirements for investment horizon, investment returns, liquidity, and risk control. We can design a variety of pension investment products with reasonable cost, clear structure and convenient service, meeting the different needs of different investors.

### Research and investment capabilities
- The pension fund investment has long-term attributes, pursues long-term stable returns, and has higher requirements for drawdown control and other risk control indicators than the general fund. Therefore, pension investment must match the client’s investment needs and life goals, and provide long-term, stable and outstanding performance.

### Leverage big data and internet technology
- Relying on the accumulated data of past serviced users, we can build a pension asset management ecological chain covering the entire life cycle, providing investors with more scientific solutions.

### Popularizing pension finance knowledge
- Fully considering public’s demand for pension investment related knowledge such as account selection, asset allocation, and compound interest income to help investors rationally understand and effectively manage their own pension accounts through various easy-to-understand forms.
The dilemma of the domestic pension system - aging population leads to increased demand

China has begun to enter the stage of accelerated aging. In the next 20 years, population aging in China will be further accelerated. The characteristics of “getting old before getting rich” will be more apparent. The aging has brought about higher demand for old-age care and increased social burden.

By the end of 2016, the proportion of people over the age of 65 has increased to 10.8%, and the growth rate has also increased compared with previous years. Since 2010, the proportion of the total working population aged 15-64 has gradually declined.

The baby boomer population born after the founding of the People’s Republic is expected to gradually become aging in the next decade, and the number of new births has shrunk since China’s family planning began in the 1980s. The combination of two factors will lead to significant acceleration of population aging in the next 20 years.

Developed countries became aging societies with per capita GNP of 10,000-30,000 US dollars, whereas China became an aging society in 2002 with per capita GNP of only 980 US dollars. In 2015, the median age of China reached 37 years old, which is equivalent to the level of countries such as the United Kingdom and the United States. The dislocation of economic development level and aging degree will exert tremendous pressure on China’s economy and society.
The dilemma of the domestic pension system 2 - insufficient coverage
At present, the coverage of the first pillar of social pension security is expanding, but still at a low level. The basic pension insurance system for urban workers in China and the basic pension insurance system for urban and rural residents, which are covered by the state finances, reached a total coverage of 915 million people by the end of 2017, and the overall coverage rate reached more than 65%. The main gap is reflected in the underdevelopment of the second and third pillars, with a total coverage of less than 17%.

The dilemma of the domestic pension system 3 - low yield
Limited by investment channels, basic pension insurance funds and corporate annuity generate low investment yields, and they have not fully utilized existing investment channels and tools to achieve value preservation and appreciation.

The dilemma of the domestic pension system 4 - the dispersion of the pension investment management system
For a long time, due to low level of overall planning, relatively decentralized management, and lack of a unified coordination mechanism, it is difficult to manage the investment of pensions. On the one hand, the basic pension insurance funds for urban and rural residents showed slow progress in investment and operation, on the other hand, urban worker pension funds showed narrow scope of centralized operation.
China's positive policies on pension investment

The problem of aging is posing a serious challenge to China's pension managers. In response to this problem, the Chinese government has made positive progress in regulation and supervision of pension investment.

Interim Measures for Utilization and Management of Personal Tax Deferred Commercial Pension Insurance Funds: specific requirements are put forward in terms of business conditions, asset allocation, operational norms, risk management and supervision and management. Relevant products are divided into three types, defined income, minimum guaranteed-income, and floating income, corresponding to Type A, B and C products respectively. Independent account management mode is adopted for type C products. These measures further promote the safe and stable operation of the tax deferred pension schemes.

The establishment of target pension funds: based on long-term investment philosophy, with the purpose of long-term stable value appreciation, mainly adopts two types of strategies: target risk strategy and target date strategy.

Recent pension policies

<table>
<thead>
<tr>
<th>日期</th>
<th>政策及主要内容</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017.11</td>
<td>《划转部分国有资本充实社保基金实施方案的通知》</td>
</tr>
<tr>
<td>2017.12</td>
<td>《企业年金办法》</td>
</tr>
<tr>
<td>2018.3</td>
<td>《养老目标证券投资基金指引（试行）》</td>
</tr>
<tr>
<td>2018.4</td>
<td>《关于开展个人税收递延型商业养老保险试点的通知》</td>
</tr>
<tr>
<td>2018.6</td>
<td>《关于建立企业职工基本养老保险基金中央调剂制度的通知》</td>
</tr>
<tr>
<td>2018.7</td>
<td>《个人税收递延型商业养老保险资金运用管理暂行办法》</td>
</tr>
<tr>
<td>2018.8</td>
<td>首批14只养老目标基金获批</td>
</tr>
</tbody>
</table>

The first group of 14 target pension funds

- 南方养老目标日期2035三年持有期混合型FOF
- 华夏养老目标日期2040三年持有期混合型FOF
- 博时颐泽稳健养老目标12个月定期开放混合型FOF
- 腾华养老目标日期2035三年持有期混合型FOF
- 富国盛世稳健养老目标一年持有期混合型FOF
- 泰达宏利泰和平衡养老目标三年持有期混合型FOF
- 易方达汇诚养老目标日期2043三年持有期混合型FOF

Source: Government websites, organized by CLAMC
Some ESG incorporated stock indices

<table>
<thead>
<tr>
<th>指数名称</th>
<th>代码</th>
<th>指数简介</th>
</tr>
</thead>
<tbody>
<tr>
<td>中证财通中国可持续发展100 (ECPI ESG)指数</td>
<td>000846</td>
<td>应通基金需求定制的中证财通中国可持续发展100(ECPI ESG)指数以沪深300指数样本公司为样本空间，根据ECPI ESG评级方法，从中挑选ESG评级高的100只公司股票组成样本股。</td>
</tr>
<tr>
<td>中证ECPI ESG可持续发展40指数</td>
<td>000970</td>
<td>根据ECPI ESG评级方法，从上证180公司治理指数样本股中挑选ESG评级高的40只公司股票组成。</td>
</tr>
<tr>
<td>上证180碳效率指数</td>
<td>950081</td>
<td>基于上市公司的碳足迹数据，在剔除碳足迹较高的股票之后，剩余股票按照碳足迹倒数进行加权，用以反映上海市场低碳排放公司的绩效。</td>
</tr>
<tr>
<td>国证南方报业低碳50指数</td>
<td>399378</td>
<td>反映中国A股市场中经营业务具有低碳排放特征，或提供低碳排放设备和服务的上市公司的股票价格运行状况。</td>
</tr>
<tr>
<td>上证社会责任指数</td>
<td>000048</td>
<td>以上证公司治理板块在社会责任的履行方面表现良好的公司股票作为样本股编制而成的指数。</td>
</tr>
<tr>
<td>深证社会责任指数</td>
<td>399341</td>
<td>选取在深圳证券交易所上市的社会责任履行良好的100只股票。</td>
</tr>
<tr>
<td>中小板企业社会责任指数</td>
<td>399651</td>
<td>选择中小板市场里社会责任履行情况良好的50只股票。</td>
</tr>
<tr>
<td>上证180公司治理指数</td>
<td>000021</td>
<td>从上证180指数与上证公司治理指数样本股中挑选100只规模最大、流动性好的股票组成样本股。</td>
</tr>
<tr>
<td>上证公司治理指数</td>
<td>000019</td>
<td>以上证公司治理板块的股票作为样本股编制而成的指数。</td>
</tr>
<tr>
<td>巨潮公司治理指数</td>
<td>399322</td>
<td>由深沪市场中公司治理结构有效、经营业绩达到一定标准的100只股票组成，选股主要参考公司治理结构评分、企业规模和经营绩效等因素。</td>
</tr>
<tr>
<td>深证公司治理指数</td>
<td>399328</td>
<td>由深市上市公司中治理结构有效、经营业绩达到一定标准的40只股票组成，选股主要参考公司治理结构评分、企业规模和经营绩效等因素。</td>
</tr>
<tr>
<td>中小板治理指数</td>
<td>399650</td>
<td>选择中小板市场里治理结构有效、经营业绩良好的50只股票。</td>
</tr>
</tbody>
</table>

Source: Wind，organized by CLAMC

- China: ESG application in the asset management industry is still relatively limited. As of August 31, China's securities market has a total of about 30 stock indices clearly related with responsible investment, while more stock indices incorporate environmental, green and other concepts into investment strategies. There are very few passive funds that track these indexes. For example, the SSE Social Responsibility Index only has a related ETF launched by CCB fund, with less than RMB 100 million AUM By the end of June 2018. The CSI and Caitong Fund launched the CSI Caitong China Sustainable Development 100 Index in 2017, relevant funds have not entered the fund raising stage.

- There are not many active equity funds that incorporate ESG into investment strategy. Two large-scale examples are Aegon-Industrial Social Responsibility Hybrid Fund and Huitianfu Social Responsibility Hybrid Fund, respectively reaching AUM of RMB 6.2 billion and RMB 3.6 billion as of the end of June 2018.

Source: Wind，organized by CLAMC
The most prominent problem facing ESG development in China is the insufficient disclosure of information about listed companies, which led to direct obstacles for investors in adopting ESG. Before CSRC issued a document to impose mandatory disclosure requirements on listed companies' environmental protection information in 2017, only stock exchange's information disclosure guidelines for listed companies and the Ministry of Environmental Protection's "Environmental Information Disclosure Measures (Trial)" have stipulated mandatory disclosure requirements for serious environmental violations. From regulatory perspective, it is basically in a state of encouraging voluntary disclosure. Under such circumstance, the disclosure rate and disclosure quality of domestic listed companies in China are not good.

In recent years, proportion of A-share companies issuing ESG report has remained at a quarter. As of May 30, 2018, a total of 822 listed companies in the A-shares market had disclosed the 2017 Corporate Social Responsibility Report, with a disclosure rate of only 23.7%. From the perspective of the industry distribution of companies published social responsibility reports, the financial sector has the highest disclosure rate, followed by steel, transportation and real estate. From the perspective of market cap distribution, large and medium-sized companies with a value of more than 10 billion yuan disclosed more corporate social responsibility reports in 2017. As of the end of May 2018, disclosure rate of listed companies with 10 billion yuan or above market cap is 59%, nearly three fifth.

Source: Wind, organized by CLAMC
There are still very few Chinese institutions joining the UN PRI. Up to now, only 16 Chinese institutions have joined, including 6 public fund management companies such as China Asset Management and Harvest Fund.

<table>
<thead>
<tr>
<th>机构名称</th>
<th>机构类型</th>
<th>加入时间</th>
</tr>
</thead>
<tbody>
<tr>
<td>九富投资</td>
<td>服务提供商</td>
<td>2018年8月</td>
</tr>
<tr>
<td>南方基金</td>
<td>资产管理公司</td>
<td>2018年6月</td>
</tr>
<tr>
<td>华宝兴业基金</td>
<td>资产管理公司</td>
<td>2018年6月</td>
</tr>
<tr>
<td>鹏华基金</td>
<td>资产管理公司</td>
<td>2018年6月</td>
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<tr>
<td>华控基金</td>
<td>资产管理公司</td>
<td>2018年5月</td>
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<tr>
<td>四川联合环境交易所</td>
<td>服务提供商</td>
<td>2018年5月</td>
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<td>QuantData Information Technology</td>
<td>服务提供商</td>
<td>2018年5月</td>
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<td>ZD Proxy</td>
<td>服务提供商</td>
<td>2018年5月</td>
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<td>嘉实基金</td>
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<td>璞玉投资</td>
<td>资产管理公司</td>
<td>2017年10月</td>
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<td>易方达基金</td>
<td>资产管理公司</td>
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<tr>
<td>华夏基金</td>
<td>资产管理公司</td>
<td>2017年3月</td>
</tr>
<tr>
<td>商道融绿</td>
<td>服务提供商</td>
<td>2016年7月</td>
</tr>
<tr>
<td>绿地金融</td>
<td>资产管理公司</td>
<td>2014年7月</td>
</tr>
<tr>
<td>九鼎投资</td>
<td>资产管理公司</td>
<td>2012年12月</td>
</tr>
<tr>
<td>云月投资</td>
<td>资产管理公司</td>
<td>2012年5月</td>
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The Chinese government has a positive attitude towards ESG investment: the 18th National Congress put forward the construction of ecological civilization as a national strategy, and made sustainable development a new policy goal in all fields.

In 2016, the Central Bank and other six ministries and commissions jointly issued the "Guiding Opinions on Building a Green Financial System." This provides the first policy framework for supporting China’s sustainable development strategy through financial markets and capital markets, and provides tremendous support and encouragement for ESG’s development in China.

The Ministry of Environmental Protection and the China Securities Regulatory Commission are jointly promoting the disclosure of environmental information by listed companies and their subsidiaries in annual reporting, and will establish a mandatory information disclosure system in three steps by 2020.

较2005年降低温室气体排放60%-65%

Source: PRI Web, organized by CLAMC
Pension & ESG - Chinese Practice

Pension assets with promising growth prospects, long term investment horizon and stable income expectation requires ESG-based investment to manage long-term risks.

- In top 22 countries by pension assets, pension assets accounted for 67% of GDP on average, while China’s pension assets accounted for only 10.6% of GDP. Compared with the mature pension system represented by the developed countries in Europe and America (with ratio mostly close to or exceeding 100%), there is still room for growth for China’s pension assets.
- China’s middle-income groups bring huge wealth management market. Pension insurance products are based on the principles of stable income, long-term lock-in, life-long collection, and actuarial balance. They also test the safety, investment ability and allocation ability of investment. It is a basic means of wealth management.
- Both of these aspects show that the scale of China’s pension assets will increase significantly in the future. Due to the long horizon and stable income requirements of pension investment, long-term risks must be dealt with. ESG investment is focused on the long-term influence factors for investment, and therefore have good application prospects.

Source: Everbright Securities "Overview of the Global Pension Market - Size, Return, Allocation"
ESG helps increase pension investment income

- From the perspective of pension investment income, as the funding gap of basic pension insurance continues to expand, the personal account funds are heavily misappropriated resulting in serious “empty account”. The pressure on the accumulated balance of pensions is increasing, which puts higher demands on the investment side.
- On the one hand, multiple studies and market performance of domestic relevant index showed that ESG screening investment most likely will outperform benchmark index return. On the other hand, ESG investment more likely chooses companies with larger market value and lower valuation. From both return perspective and allocation structure perspective, ESG is very relevant to pension investment, deserving more attention.

CSI ESG40 and ESG100 index earning excess returns

ESG100 index has significant excess returns since 2016

Market value and valuation distribution of latest constituent stocks of ESG100 index

Source: Changjiang Securities Sustainable Development Series Research Report
China Life Asset Management Co., Ltd. is one of the largest institutional investors in China. It was jointly established by China Life Insurance (Group) Co., Ltd. and China Life Insurance Co., Ltd., and its assets under management exceeded RMB 2.77 trillion.

China Life Asset Management Co., Ltd. will join the United Nations-supported Principles for Responsible Investment (UN PRI) and become its first member from insurance asset management industry in China, and will actively implement the ESG investment philosophy in future practice.

We call on Chinese financial institutions to: 1. Actively join the UN PRI; 2. Strengthen research and application of ESG; 3. Develop and launch ESG-related financial products.
Thank you